

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 6596

Tariff filing of Citizens Communications Company,  
d/b/a Citizens Energy Services, requesting a rate  
increase in the amount of 40.02%, to take effect  
December 15, 2001

PREFILED TESTIMONY OF  
KATHRYN E. PARLIN  
ON BEHALF OF THE  
VERMONT DEPARTMENT OF PUBLIC SERVICE

March 7, 2002

Summary: The purpose of Ms. Parlin's testimony is to discuss her review of Citizens' DSM program expenditures and ACE savings. She recommends a reduction of \$521,850 to the DSM deferral account and also proposes specific adjustments to the ACE energy savings.

Prefiled Testimony  
of  
Kathryn E. Parlin

1 Q. Please state your name and occupation.

2 A. My name is Kathryn E. Parlin, and I am a co-owner of West Hill Energy and  
3 Computing, Inc. My business address is 23 Williamstown Road, Chelsea, Vermont,  
4 05038. I am testifying on behalf of the Vermont Department of Public Service (the  
5 "Department" or "DPS") in this docket.

6 Q. Please summarize your professional background and experience.

7 A. I have fifteen years of experience in the field of energy conservation and database  
8 development. From 1987 to 1990, I worked for the Conservation Services Group  
9 (formerly Community Energy Partnership) in Massachusetts. My job entailed managing a  
10 contractor arranging service, developing and maintaining audit-related databases, assisting  
11 with the implementation of a financing program for energy conservation measures, and  
12 designing and screening utility conservation programs. Since moving to Vermont and  
13 establishing West Hill Energy Consultants with my partner in 1991, we have provided  
14 services related to the evaluation, design and implementation of utility demand side  
15 management ("DSM") programs and have also designed and developed a number of  
16 database tracking systems. In 1999, we incorporated under the name West Hill Energy  
17 and Computing, Inc. Previous clients include the Vermont Department of Public Service,  
18 the Washington Electric Cooperative, Vermont Energy Investment Corporation, Energy  
19 Rated Homes of Vermont, Conservation Services Group and others. My resume and a list  
20 of completed projects of West Hill Energy Consultants are available upon request.

21 Q. What is your educational background?

22 A. I graduated with a B.S. degree in Mechanical Engineering from the University of  
23 Vermont in 1986.

1 Q. Have you previously testified before the Public Service Board?

2 A. Yes, I have, in Dockets 6495, 6107, 6018, 5983, 5841/5859, 5724/5701, 5270-  
3 GMP-4, 5270-CUC-2 and CUC-3, 5270-NED-1, 5270-WEC-1, 5270-CV1&3, and 5632.

4 Q. What is the purpose of your testimony?

5 A. My testimony discusses my review of Citizens DSM deferral expenditures and  
6 ACE savings amounts included in the instant docket and recommends modifications to  
7 these amounts.

8 Q. Please summarize your testimony.

9 A. My testimony shows that Citizens' DSM expenditures and ACE amounts in the  
10 instant docket are overstated. I support a reduction of \$521,850 in the total DSM deferral  
11 amount the Company seeks to recover, as shown in Exhibit DPS-KEP-1, and a reduction  
12 in the ACE kWh savings as shown in Exhibit DPS-KEP-2. The reduction to the DSM  
13 deferral account, plus associated carrying cost and rate base modifications, are reflected in  
14 Department Witness Schultz's prefiled testimony and exhibits.

15 Q. Please discuss your proposed reduction in Citizens recovery of DSM deferral amounts.

16 A. My conclusion that Citizens DSM deferral amounts are overstated arises from the  
17 following situations:

18 A. inclusion of probation-related, non-DSM and other non-recoverable  
19 expenditures in the remedial RISE ("Residential Incentives to Save  
20 Energy") program costs,

21 B. unnecessary program costs due to potential RISE participants served  
22 through other programs and actual RISE participants receiving multiple  
23 audits,

24 C. amounts incorrectly charged to Vermont's division of Citizens,

25 D. inclusion of costs related to regulatory oversight associated with Citizens'  
26 probation,

1 E. overcollection of recurring DSM payroll in rates, and

2 F. overstatement of ACE savings.

3 The balance of my testimony provides support and documentation concerning each  
4 of these items.

5 Q. Please describe your review of Citizens' DSM programs.

6 A. I reviewed Citizens' DSM expenditures, including selected invoices, examined the  
7 Special Master Norse's report of January 9, 2001 titled "Report of the Special Master  
8 concerning DSM Program Expenditures - 1999 - June 2001," analyzed Citizens' DSM  
9 annual reports, and reviewed selected participant files, both hard copy files at Citizens'  
10 office and those provided electronically by Citizens.

11 Q. What was the result of this review?

12 A. My review of Citizens' DSM costs and measure savings shows a lack of attention  
13 to ensuring that costs are assigned to correct categories and that DSM measures are  
14 adequately tracked. Many of the corrections to the DSM deferral account and issues  
15 related to the ACE savings are a direct result of data tracking errors and oversights.

16 Q. Do you consider these errors to be an indication of Citizens' failure to implement its DSM  
17 program adequately?

18 A. No. My review of the participant files and DSM annual reports indicates that  
19 Citizens seems to be providing effective DSM services in the field and is making an effort  
20 to correct past actions in this respect.

21 RISE non-Recoverable and non-DSM Expenses

22 Q. Do you recommend any adjustments to the RISE program expenditures?

23 A. Yes. I recommend that the RISE administrative costs be removed from the DSM  
24 deferral account in their entirety. This recommendation would result in a reduction of  
25 \$148,100 from the DSM deferral account, as calculated from the electronic files of

1 program costs provided by Citizens in discovery. The reasons for this disallowance are as  
2 follows:

- 3 • Probation-related costs are embedded in the RISE administrative costs;
- 4 • Citizens was unable to demonstrate that it had taken reasonable steps to ensure  
5 that non-recoverable costs were correctly identified;
- 6 • Citizens' contract with its subcontractor did not clearly and correctly define the  
7 below-the-line costs as defined in the MOU;
- 8 • Below-the-line marketing and audit costs are included in the administration costs;
- 9 • RISE administrative costs include some costs associated with Citizens' previous  
10 rate case, and these costs should not be charged to the DSM deferral account; and
- 11 • Citizens is charging ratepayers twice for administrative costs to service the same  
12 group of customers, first for the original Residential Retrofit Program and now for  
13 the RISE program.

14  
15 In addition, I recommend that 50% of the \$54,214 related to program  
16 development for the RISE program be removed from the DSM deferral account, to be  
17 consistent with the removal of 50% of audit costs as agreed in the MOU and the principle  
18 that ratepayers should only pay once for a well run DSM program.

19 I further propose that \$5,200 be deducted from the DSM deferral account to  
20 correct non-recoverable audit and marketing costs erroneously charged to the ratepayers.

21 Q. Please explain your concerns regarding administrative and program development costs  
22 charged to the RISE program and included in the DSM deferral account.

23 A. Citizens made three separate and distinct errors in claiming expenditures for  
24 administration of the RISE program:

- 25 1. Citizens charged specific below the line costs to the DSM deferral account in  
26 violation of the MOU of June, 1998 between the Department and Citizens, which  
27 was incorporated into the Board's order of September 15, 1998 in Dockets  
28 5841/5859.

1           2.     Probation-related costs were incorporated into RISE administrative costs and  
2                   entered in the DSM deferral account, in violation of the Board's order of  
3                   September 15, 1998 in Dockets 5841/5859.

4           3.     RISE administrative costs also included expenditures associated with the previous  
5                   rate case. These costs are not subject to the preferential treatment afforded DSM  
6                   expenditures and should be removed from the DSM deferral account.

7           In addition, Citizens charged all administrative and program development costs to the  
8                   ratepayers, although it agreed in the MOU with the Department that ratepayers would pay  
9                   only once for the implementation of a well-designed and operated DSM program.

10       Q.     Why do you maintain that some of Citizens' DSM expenditures related to the RISE  
11                   program should not be charged to the ratepayers?

12       A.     In the Board order of June 17, 1997 in Docket 5841/5859, the Board required  
13                   Citizens to field a residential program to remedy its poor implementation of the Residential  
14                   Retrofit Program, in particular the fuel switching component. In June of 1998, Citizens  
15                   and the Department signed an MOU outlining some of the specifics of this remedial  
16                   program, now called RISE. The MOU includes the following statement of principle  
17                   regarding the allocation of costs:

18                   "The parties agree that ratepayers should pay only once for delivery of a quality  
19                   DSM program." (Section 4.c)

20                   In the MOU, Citizens and the Department explicitly agreed that all costs  
21                   associated with the identification, solicitation and/or marketing of potential RISE  
22                   participants should not be charged to Citizens' ratepayers. The parties also agreed that  
23                   50% of the audit costs would be charged below the line. The MOU defines audit costs as  
24                   follows:

25                   "All costs associated with the gathering, analysis and reporting of information to assess  
26                   site-specific energy efficiency measure cost-effectiveness, including (1) gathering  
27                   information (by phone, mail or on-site), (2) analysis of the information (3) reporting the  
28                   results of the analysis, and (4) answering questions and assisting the customer in  
29                   understanding the results so that they can make their energy improvement choices."

1 (Section 4.c)

2 Q. Did Citizens correctly remove all non-recoverable costs related to the RISE program from  
3 the DSM deferral account?

4 A. No. My investigation shows that specific below the line costs directly identified in  
5 the MOU were included as RISE administrative costs in the DSM deferral account in this  
6 docket. I came to this conclusion after reviewing two subcontractors' invoices for  
7 administrative expenses associated with this program, for work performed during April of  
8 1999 and September of 2000. Both of these invoices were charged to administration in  
9 their entirety. In both invoices, the detailed break out of staff time indicates that some  
10 tasks were associated with marketing and audits. Other costs were so vaguely defined  
11 that it was not possible to determine with any degree of certainty whether marketing and  
12 audit costs were included.

13 Q. Which marketing and audit costs were included as administrative?

14 A. Charges related to establishing program eligibility and enrolling participants, and  
15 audit costs associated with assigning jobs to audit staff, scheduling audits and processing  
16 audit reports were incorrectly assigned to the administrative category.

17 Q. Did Citizens provide documentation showing that management gave clear guidelines to its  
18 staff and subcontractor regarding below the line costs for the RISE program?

19 A. No. Since one of the primary issues resulting in Citizens' probation was the  
20 reliability of its accounting system, I would have expected Citizens to establish clear  
21 systems for identifying and substantiating all below the line costs. However, in response  
22 to an informal information request, Citizens stated that its staff is unaware of any internal  
23 communications related to RISE cost allocations. In addition, Citizens apparently  
24 neglected to provide clear guidelines to its main subcontractor. I reviewed two contracts  
25 between Citizens and its subcontractor, covering two separate period of time. The earlier  
26 contract does not clearly delineate the cost categories as defined in the MOU, and the later

1 contract places specific audit and marketing tasks in the administrative category.

2 Q. How does Citizens explain this confusion?

3 A. Citizens responded to the Department's discovery by explaining that its  
4 subcontractor for this program is also implementing its other residential retrofit programs,  
5 and the cost categorization is appropriate for the other programs, even if some RISE  
6 below the line costs are not specifically identified. This response illustrates Citizens'  
7 failure to establish a clear and easily reproducible system for identifying RISE non-  
8 recoverable costs.

9 Citizens also stated in this discovery response that the marketing below the line  
10 costs were backed out of administrative costs. My review of RISE invoices does not  
11 support Citizens' claim.

12 Citizens further argued that assigning audit jobs and processing audit reports are  
13 actually administrative costs because they are not associated with a specific project. This  
14 position is unpersuasive. Even accepting Citizens' definition of administrative costs, I fail  
15 to understand how assigning an auditor to a project and processing the audit report can be  
16 interpreted to be tasks that are not associated with a specific project.

17 I have included Citizens' responses to DPS IR 7-3 and 7-4 as Exhibit DPS-KEP-3.

18 Q. Did you notice anything else unusual in your review of the RISE invoices?

19 A. Yes. The detailed descriptions of staff activities show that some of the tasks  
20 defined as RISE administration were associated with preparing materials requested by  
21 Special Master Norse and by the Department. Tasks conducted at the request of the  
22 Special Master are directly related to the terms of probation. The Board explicitly ordered  
23 that Citizens' ratepayers should not be required to pay for probation-related expenses, and  
24 also that Citizens is fully responsible for identifying all such costs and establishing a  
25 mechanism to ensure that probation costs are not charged to the ratepayer. (Order,  
26 9/15/1998, at 62 and 72)

27 The materials prepared for the Department were related to Citizens' previous rate



1 case, Docket 6332. These costs are not eligible for the preferential treatment afforded to  
2 DSM costs and should not be charged to the DSM deferral account.

3 Q. Do you have any other concerns about the costs charged to ratepayers for the RISE  
4 program?

5 A. Yes. The principle articulated in the MOU is that Citizens' ratepayers should not  
6 have to pay twice for well designed and operated DSM programs. While the Department  
7 and Citizens specified how this principle should be applied to marketing and audit costs, it  
8 is reasonable that this principle should also apply to administrative costs and program  
9 development costs. Administrative costs include those costs related to program  
10 management and oversight, such as preparing program reports, supervising staff, assessing  
11 program progress and setting policy. Program development costs consist of tasks such as  
12 creating protocols and standards, establishing incentive levels and developing forms. All  
13 of these tasks were performed for the original Residential Retrofit Program. In Docket  
14 5841/5859, the Board determined that this program was inadequate and required Citizens  
15 to revisit and re-serve those homes. If all of the RISE program development and  
16 administrative costs are charged to the ratepayers, the ratepayers will be effectively paying  
17 twice for providing these services to RISE participants.

18 Q. Is there evidence of other erroneous charges to Citizens' ratepayers in the RISE program?

19 A. Yes. Citizens' records show that non-recoverable costs are included in the DSM  
20 deferral account. For example, \$1,188 of marketing costs were erroneously charged to  
21 the ratepayers instead of the shareholders. While only 50% of audit costs were to be  
22 charged to the ratepayers, Citizens' files show that \$154,861 were charged to the  
23 ratepayers and \$146,873 was written off. These errors result in my proposed reduction of  
24 \$5,200 from the DSM deferral account.

25 Other RISE Issues

26 Q. Do you have any other deductions related to the RISE program?

1       A.           Yes. I recommend that \$23,600 be removed from the DSM deferral account to  
2       account for below the line costs associated with potential RISE participants who were  
3       served through other programs and unnecessary costs incurred by performing duplicate  
4       audits for some RISE participants.

5       Q.       Please explain the reason for this deduction.

6       A.           I found that 84 customers, who participated in the original Residential Retrofit  
7       Program (“RRP”) and should have been eligible for RISE, instead enrolled in other  
8       residential audit-driven programs, such as the Residential High Use Program and the  
9       Single Family Low Income Program. If these customers had been treated appropriately,  
10      they would have had access to the RISE services, and a portion of the audit, marketing  
11      and administrative costs should have been charged to the shareholders.

12               My investigation of Citizens’ DSM database further indicated that 8 participants  
13      received audits through both the RISE program and the Single Family Low Income  
14      Program. The audits were generally conducted within a year of each other. Citizens’  
15      ratepayers should not be expected to pay for duplicate audits within such a short time  
16      frame.

17      Q.       How did you establish the amount of the deduction of \$26,300?

18      A.           I removed 50% of the estimated audit and administrative costs and 100% of the  
19      estimated marketing costs from the DSM deferral account for the RRP participants who  
20      participated in audit-driven programs other than RISE. To correct for the duplicate  
21      audits, I propose that 100% of the estimated audit and administrative costs for one of the  
22      two audits be disallowed. I estimated the per audit costs based on the Citizens’ program  
23      costs as reported in its 2000 DSM Annual Report.

24      Other Adjustments to DSM Expenditures

25      Q.       Please explain your recommendations to reduce the DSM deferral account due to other  
26      incorrect charges.

1       A.           In the discovery response to DPS IR 1-02, at 2 and 3, Citizens showed that its  
2       DSM expenses in the instant docket need to be adjusted downward by \$85,476. Of this  
3       amount, \$79,944 relates to overcharges to the DSM deferral account and \$5,532 to the  
4       AFUDC adjustment related to the overcharges. These overcharges were identified by  
5       Special Master Ed Norse in his report of January 9, 2002.

6               In addition, I discovered that an invoice for \$18,785 charged to the DSM deferral  
7       account actually related to work performed for Citizens' Arizona branch. Although a  
8       Citizens' employee in Newport identified the problem and informed the central accounting  
9       office, the error was not corrected.

10              These two adjustments result in a total reduction of \$98,729 to the DSM deferral  
11       account, excluding carrying costs and AFUDC.

12      Q.       Do you have any other adjustments to the DSM deferral account?

13      A.       Yes. Citizens paid \$40,704 to Optimal Energy for activities that were related to  
14       regulatory oversight associated with Citizens' probation. In response to DPS IR 7-5,  
15       Citizens identified the work products produced by Optimal Energy for these charges.  
16       These work products were developed in response to a letter from the DPS dated  
17       December 18, 1998 expressing concerns arising from review of Citizens' DSM quarterly  
18       reports, submitted by Citizens as required in item 1.i of the terms of probation. (Order,  
19       9/15/1998, at 71) Accordingly, these costs are probation related expenses and should not  
20       be charged to the ratepayers. I recommend reducing the DSM deferral account by  
21       \$40,700 to remedy this overstatement of DSM costs.

22      Q.       Do you think there could be other probation related costs included in Citizens's DSM  
23       deferral account?

24      A.       Yes, I think it is reasonable to question whether other probation-related costs  
25       could be included in Citizens' DSM expenditures. My review of Citizens' DSM  
26       expenditures as discussed above indicates that Citizens did not have an appropriate  
27       mechanism in place for identifying these costs and ensuring that these non-recoverable

1 costs were removed from its DSM deferral account. I was not, however, able to conduct  
2 a sufficiently detailed review to determine that all probation costs have been removed from  
3 the DSM deferral account.

4 Expensed Payroll Adjustment

5 Q. Do you have any adjustments to the DSM deferral account related to recurring costs?

6 A. Yes. I recommend the total deferral amount shown in the Company's Schedule  
7 B.7 be reduced by \$178,500, plus associated impacts to the calculated carrying costs for  
8 the DSM deferral accounts. This adjustment is due to Citizens' failure to account  
9 correctly for the recurring costs of DSM payroll incorporated into rates in the previous  
10 rate case.

11 In response to an informal discovery question, Citizens informed the Department  
12 that an annual amount of \$169,712 was included as a recurring costs in rates for DSM  
13 payroll in the instant docket. In contrast, Citizens subtracted only \$140,048 from its DSM  
14 deferral account for expensed payroll in 1999, \$89,177 in 2000, and \$16,588 for the first  
15 half of 2001.

16 Citizens should adjust its deferral account balance by the amount of expensed  
17 payroll in rates, not the payroll amounts actually incurred during the cost recovery period  
18 as shown in its Schedule B.7. In this way, the Company neither over nor undercollects for  
19 DSM costs.

20 ACE Adjustments

21 Q. Do you have any adjustments to Citizens' ACE savings?

22 A. Yes. My adjustments to Citizens' ACE claims are related to the programs directly  
23 operated by Citizens during the period. These adjustments are quantified in Exhibit DPS-  
24 KEP-2.

25 Q. Did you review Citizens' claims for ACE in this docket?

26 A. Yes. I reviewed the measure-levels savings for Citizens' programs as contained in

1 Citizens' central tracking system and examined selected customer files. Citizens' ACE  
2 claims in this docket stem from two separate endeavors: Citizens' own programs and the  
3 core program activity implemented by the Energy Efficiency Utility ("Efficiency Vermont"  
4 or the "EEU") beginning in March of 2000 and continuing to the present.

5 Q. Please explain the adjustments to the ACE claims arising from Citizens' own programs.

6 A. I have identified a number of ACE reductions that should be made for the  
7 following reasons:

- 8 • The energy savings for one project in the C&I new construction program were  
9 recorded in error;
- 10 • In a school lighting project, it appears that Citizens did not adequately compare  
11 savings estimates to pre-installation billing history to assess a reasonable range of  
12 potential savings, resulting in a significant overstatement of savings for this  
13 project; and
- 14 • Energy savings were overstated for some lighting measures in the Residential New  
15 Construction Program.

16 Q. Do you recommend any adjustments to the ACE savings related to Efficiency Vermont's  
17 programs?

18 A. Not at this time. I will finalize my testimony related to the ACE savings from  
19 Efficiency Vermont's programs for measures installed during the period of January 1 to  
20 June 30, 2001 in the rebuttal phase of this docket.

21 Q. Why?

22 A. Citizens' ACE calculation covers measures installed through June 30, 2001. The  
23 Department has not yet verified Efficiency Vermont's savings for the year 2001.  
24 Consequently, the 2001 savings claimed by Citizens were not reviewed by the  
25 Department. The Department's verification process for Efficiency Vermont's 2001  
26 savings will be completed by early May.

1 Q. Do you have any other concerns regarding Citizens' ACE claims for programs operated by  
2 Efficiency Vermont?

3 A. Yes. Although I am not recommending for specific ACE disallowances for savings  
4 associated with Efficiency Vermont's programs, I found that Citizens' approach to  
5 tracking the savings from Efficiency Vermont's programs significantly hindered my ability  
6 to review these savings.

7 Q. What are your issues with Citizens' data tracking system?

8 A. The ACE mechanism was developed to remove a disincentive to utility DSM by  
9 permitting utilities to be compensated for the lost revenues between rate cases resulting  
10 from the installation of DSM measures. Implicit in the ACE concept is the direct  
11 relationship between the program participant who installs the measure and the loss of  
12 revenue to the utility. There is no such direct link in Citizens' DSM database due to the  
13 way the EEU's program installations are recorded. It is not possible to ascertain the  
14 participant's name or account number, the actual measures installed, or the measure-level  
15 savings for the EEU's programs from Citizens' DSM database. Thus, Citizens' DSM  
16 database can not be used to validate per measure savings or even to confirm that Citizens'  
17 measure savings correspond to the verified savings from Efficiency Vermont's programs.

18 Q. How did Citizens incorporate installations from the EEU's program activity into their  
19 DSM database?

20 A. Citizens consolidated all activity resulting from the EEU's five DSM programs into  
21 two "programs": residential and commercial/industrial. Measures are combined by end  
22 use, measure life and the month of installation. Dummy account numbers are assigned to  
23 all of the records.

24 Q. How can Citizens use the information on the EEU's programs as currently stored in its  
25 DSM database?

26 A. Citizens' tracking of Efficiency Vermont's programs is minimally adequate for

1 calculating a proxy value of ACE for Efficiency Vermont's programs. It is not adequate  
2 for other DSM tracking purposes, such as distributed utility planning or responding to  
3 customers' inquiries.

4 Q. Why do you think Citizens decided to take this approach?

5 A. It is my understanding that the issue is related to changes in the account numbering  
6 system. Although Efficiency Vermont provides all of the information regarding recent  
7 participants with the new accounts numbers, Citizens' DSM database has not been  
8 updated to accommodate these new account numbers.

9 Q. Please explain your concerns about this strategy for tracking the EEU's savings.

10 A. Efficiency Vermont provides measure-level data for Citizens' customers served  
11 through the EEU's programs quarterly on disk. This disk is apparently the only source for  
12 the detailed information regarding installed measures, including a description of the  
13 measure, the account number and name of the participant.

14 Although the DSM programs are being operated by Efficiency Vermont, Citizens  
15 has a stake in the outcome of those programs, both in the aggregate and on a customer  
16 specific basis. Citizens' approach to tracking the EEU's DSM measures could have  
17 significant ramifications for current and future DSM and distributed utility planning,  
18 including the following.

- 19 • Citizens' current approach would make it difficult and time-consuming for a  
20 Citizens' employee to respond to a customer's inquiry.
- 21 • Since Citizens aggregates measures without regard to location or account, it could  
22 be losing potentially valuable information for distributed utility planning.
- 23 • It hampers the Department's ability to review the measure-level savings for the  
24 programs operated by Efficiency Vermont in Citizens' territory for ACE purposes  
25 or other reasons.

26 In addition, the Board emphasized the importance of maintaining critical DSM  
27 tracking information in a central database system in the Board order in Docket 5841/5859.

1 (Order, September 15, 1998 at 71) Citizens' tracking of measure-level savings from  
2 Efficiency Vermont's programs is not consistent with this condition of probation  
3 established by the Board.

4 Q. Are you suggesting that Citizens begin an intensive and costly effort to upgrade its DSM  
5 tracking system?

6 A. No. Citizens' DSM database structure should not require major modifications to  
7 accept Efficiency Vermont's measure-level savings. I would expect that adding the new  
8 account numbers to the current DSM tracking system should be a straightforward and  
9 relatively simple task.

10 Q. Does this conclude your testimony?

11 A. Yes, it does.